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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002984

SIPDIS

DEPT PASS TO AIT/W AND USTR  
DEPT FOR EAP/TC, EAP/EP AND EB/IFD/OIA  
TREASURY FOR OASIA ZELIKOW, WISNER AND OCC AMCMAHON  
TREASURY ALSO PASS TO FEDERAL RESERVE BOARD OF GOVERNORS,  
SAN FRANCISCO FRB AND NEW YORK FRB

E.O. 12958: DECL: 07/08/2020

TAGS: [ECON](#) [EFIN](#) [PINR](#) [PREL](#) [TW](#)

SUBJECT: TRADING SCANDAL DAMAGES TAIWAN'S FSC

Classified By: AIT ACTING DIRECTOR DAVID KEEGAN, REASON 1.5 B

1. (C) Summary and comment: The Taiwan High Court Prosecutors' Office is currently probing Lee Chin-cheng, Director of the Financial Supervisory Commission (FSC) Examination Bureau (EB), on his possible connection to an illegal insider trading operation involving other government officials, and media reporters. The case touches on the endemic problem of political-business-media collusion in Taiwan. Whether Lee is eventually found guilty of breaking laws or not, the reputation of the FSC as an independent and honest regulatory agency has been undermined. End Summary and comment.

2. (SBU) The Economic Crime Crackdown Center attached to the Taiwan High Prosecutors' Office (ECCC, aka: the "Black Gold Investigation Center") questioned FSC EB Director Lee Chin-cheng on June 27 in an attempt to clarify his connection with Lin Min-da, a stock market trader currently under investigation for insider trading. An ECCC search of Lin's residence on June 23 had turned up an FSC memo that linked Lee to Lin, and to a ring of stock price manipulators.

3. (SBU) According to Lee, the FSC EB (which despite its name, is an investigative unit) also suspected that insider trading by the same group of stock traders had occurred in a number of the stock issues on Taiwan's market since late last year. Lee claims that in May 2005 he jotted down on a memo some of the unusual stock trading records from reports submitted to him by the FSC Securities and Futures Bureau (SFB). He then gave this memo to a friend and asked the friend to help identify those involved in the trades. This was the memo found by the ECCC in Lin's residence. In all, three separate government agencies are investigating the Power Quotient insider trading, without coordination, or even informing each other. In addition to the ECCC and the FSC EB, the Taipei Prosecutors' Office had launched its own investigation.

4. (SBU) In early December 2004 the ECCC began investigating the trading of shares in the Power Quotient International Company, a high-tech electronics firm charged with falsifying its and financial statements to boost share prices. Insider trading by a group of stock traders nicknamed "vultures" had apparently taken place before the falsification charges were made public, earning the hawks enormous gains from short selling of the Power Quotient Shares. ECCC investigators believe Lin Min-da provided financial resources for the vultures to purchase stocks. Other suspected group members included government officials of financial and law enforcement agencies and journalists. Several press reporters have been publicly identified (and fired). When the ECCC found Lee's memo on insider trading in Lin's house, the information was leaked to the media and it was widely reported that the ECCC would include Lee on its list of those charged. According to reports in the United Daily News, Wu Nai-jen, Chairman of the Taiwan Stock Exchange and former DPP Secretary General, is among those under suspicion.

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5. (SBU) The ECCC questioning of EB Director Lee Chin-cheng on June 27 instantly triggered a confrontation between the FSC and the Ministry of Justice (MOJ, parent agency of the ECCC.) On June 28 FSC Vice Chairman Lu Tung-ying openly supported Lee, noting that the insider trading case occurred before Lee became EB Director in January 2005. Lu said that officials in sensitive positions were often the targets of attacks.

Inter-agency Lack of Coordination Becomes Open Hostility

6. (SBU) FSC Chairman Kong Jaw-sheng was upset by the Prosecutors' Office leaking to the press information obtained during its questioning of Lee. Kong denied a press report that the Prosecutors' Office had offered to drop its investigation of Lee if he dismissed him as head of the EB. The confrontation between the two agencies escalated to the point that the FSC pulled back three of its officers that had

been assigned to the ECCC. The FSC also set up a special task force of over 300 persons (but not Lee) to investigate the Power Quotient insider trading case and vowed to identify all the vultures before the Prosecutors' Office does. However, the MOJ has refused to subpoena individuals the FSC wants to question.

#### Premier Hsieh Intervenes

17. (SBU) In his weekly cabinet meeting on July 6, Premier Frank Hsieh asked the FSC and the MOJ to stop bickering and stop making statements to the press about the case. He requested the two agencies to work together in fighting economic crimes and to quickly resolve the Power Quotient case. Both the FSC and the MOJ instructed their personnel to keep details about the case strictly confidential.

#### Can the FSC Still be an Effective Regulator?

18. (C) The case highlights once again the widespread popular concern of increasingly prevalent corruption among regulatory bodies and government corporations since the DPP took power in 2000. The ECCC's investigation of EB Director Lee has also undermined the credibility of the FSC to act as an independent regulatory agency by highlighting its lack of authority to serve subpoenas or use other law enforcement investigative tools. Finally, the debate surrounding this case has led both the Executive Yuan and the Legislative Yuan to publicly question the FSC's independence. FSC Chairman Kong attends weekly cabinet meetings and reports regularly to the Premier. The FSC is expected to follow the EY's economic development policies, and answered the EY's call for economic stimulating measure in May 2005 by encouraging banks to increase lending. The FSC Chairman and his senior staff are also required to testify before the LY, which has the authority to cut its budget. The LY has refused to provide the funds needed to resolve the serious problems of Taiwan financial institutions, a top FSC priority.

19. (SBU) AIT/T will continue to follow the case and report developments.

KEEGAN